

AR06

Whisper Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

**ANNUAL REPORT**  
**1994**

**INDEPENDENT**  
**ENERGY INC.**



## **CORPORATE PROFILE**

Independent Energy Inc. is a company that is well managed and during its brief history has demonstrated the ability to provide consistent growth at very low costs.

***Initial Acquisition-620 BOE/DAY*** ■ The Company was incorporated in March 1993. Oil and gas operations commenced in July 1993 when Independent completed a \$5.3 million oil and gas acquisition which provided an immediate cash flow base and ongoing development opportunities. Initial production rates were 4.2 million cubic feet per day and 200 barrels of oil per day. The acquisition was financed with bank debt and the proceeds of a private placement of 2.4 million common shares at \$1.25 per share.

***Initial Public Offering*** ■ In October 1993, Independent successfully raised \$2.15 million through the public issuance of 716,990 common shares.

***Rationalizations*** ■ Selective sales generated capital of \$2.67 million and only reduced production by 75 barrels per day.

***Subsequent Acquisition-385 BOE/DAY*** ■ On November 1, 1993 Independent acquired Cormac Resources Ltd., a private company for \$3 million and 646,000 common shares, increasing production to 480 barrels of oil per day and 4.5 million cubic feet per day - 930 BOE/day.

***Exploitation and Development-370 BOE/DAY*** ■ In mid 1994, the company commenced a 20 (14 net) well drilling program which has resulted in increasing production to approximately 800 barrels of oil per day and 5 million cubic feet of natural gas per day - 1300 BOE/day.

## **ANNUAL MEETING**

The annual meeting of Independent Energy Inc. will be held on June 7, 1995 in the Viking Room of the Calgary Petroleum Club at 2:30 p.m. All shareholders and any other interested parties are invited to attend the annual meeting.

## Comparative Highlights

	December 31 1994	December 31 1993 (note)
<b>Financial</b>		
Oil & natural gas sales (net of royalties)	\$ 5,268,000	\$ 1,942,000
Funds generated from operations	\$ 2,145,000	\$ 775,000
Per share weighted average	\$ .48	\$ .21
Net earnings	\$ 129,000	\$ 73,000
Per share weighted average	\$ 0.03	\$ 0.02
Debt	\$ 4,613,000	\$ 3,800,000
Capital expenditures	\$ 5,587,000	\$ 10,563,000
General & administrative	\$ 741,000	\$ 241,000
Shareholders' equity	\$ 6,864,000	\$ 6,855,000
Common shares issued and outstanding	4,436,090	4,487,990
<b>Operating</b>		
Daily production		
Crude oil & NGL's (BPD)	560	286
Natural gas (MMCFD)	4.00	4.28
BOEPD	960	714

Note - Includes the period from commencement of operations July 7, 1993 to December 31, 1993



In virtually all areas of our business, 1994 would have to be considered a success. Revenues, cash flow, earnings, daily production rates and reserves were all increased substantially. As much of the production and reserve increases occurred in the fourth quarter, the results of these additions will have a more significant financial impact in 1995.

### *Highlights of 1994*

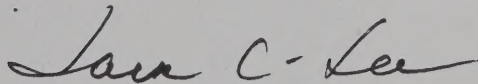
- Daily oil and natural gas liquids production increased 96% from an average 286 barrels of oil per day in the previous year to an average 560 barrels of oil per day in 1994. Current rates exceed 800 barrels of oil per day.
- Throughout the year the Company disposed of interests in five non core areas for proceeds of \$2.67 million at a price equivalent of \$20.24 per BOE.
- The Company expended \$5.58 million on capital expenditures which resulted in finding costs of \$3.83 per BOE for proven reserves only. Net of the dispositions mentioned above, these reserves were added at a net cost of \$2.20 per BOE.
- Proved oil reserves increased by 52% to 1.869 million barrels.
- Proved gas reserves increased by 21% to 10.87 billion cubic feet.
- Proved natural gas liquids reserves increased by 290% to 238,000 barrels.
- Net Asset Value per share increased by 19% from \$3.27 per share to \$3.89 per share fully diluted.
- The management team was strengthened with the addition of Eric Panchy as Exploration Manager and Darcy Anderson as Controller.

**Outlook** ■ Our objectives for 1995 are to increase average production levels from 960 BOEPD to 1550 BOEPD which will result in cash flow per share of approximately \$0.80. We firmly believe that this can be accomplished through the exploitation of existing Company owned properties. The capital budget for exploration and development for 1995 has been set at \$4.0 million and is expected to be funded from cash flow. The majority of the budget has been dedicated to development and expansion of facilities at Buffalo Coulee where we plan to drill 9 wells and install additional compression. The completion of this portion of our program is expected to add approximately 300 barrels of oil per day and 1 million cubic feet of natural gas per day. The Company's independent engineering firm has assigned 1.8 million barrels of probable reserves to this area. At current rates of expenditure it will take two years to fully develop the pool, however, it does place Independent in the enviable position of being able to grow significantly in 1995 and 1996 without incurring commensurate offsetting risk. The balance of our budget will be expended on other Company owned properties some of which are described later in this report and replenishing our undeveloped land inventory. ■ Independent continues to search for low cost acquisitions that offer exploitation potential. We expect these opportunities may become more plentiful as we move through the current year. An acquisition would have to be funded from existing lines of credit which currently stand at \$5.8 million, \$2.0 million of which remains undrawn.

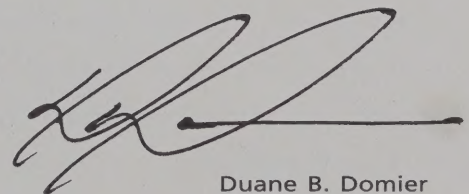
In closing, we would like to thank the employees and directors for their contribution to the success enjoyed by the Company in 1994.

On behalf of the Board

Sincerely,



Jack C. Lee  
Chairman



Duane B. Domier  
President



**Management of the Company** ■ Independent is to a large degree owned (management and directors own or exercise control over 2 million shares or 40% of the company) and operated by a very experienced, entrepreneurial group that manage the Company as "owners".

**Jack C. Lee, B.A., B.Comm., Chairman and Chief Executive Officer** ■ Founded the company in early 1993 and played a significant role in raising the initial \$3.0 million of seed capital that allowed the Company to conclude its first acquisition. Has 22 years of oil and gas industry experience, starting in the land department of Amoco, was a Vice President of Sceptre Resources Limited, was a founding shareholder and ex-President and CEO of Gane Energy Corporation (predecessor company to Northstar Energy). From 1988 to 1990, he accepted a posting to Hong Kong representing the Alberta government in areas of trade, investment and immigration for all of Asia/Pacific. He returned to the oil and gas industry in 1990 and in 1993 worked in the area of corporate finance with Sprott Securities prior to devoting full time to Independent.

**Duane Domier, P.Eng., M.B.A., President and Chief Operating Officer** ■ Has been with the Company since its formation in July 1993. Prior to joining Independent, Duane had spent 12 years with a private oil and gas company, initially as Chief Engineer, to Vice President of production, and finally as Executive Vice President. The company produced 5000 BOEPD, with an annual budget of \$8 million. Prior to that he held various engineering positions with Camel Oil & Gas, Andex Oil and Gulf Canada Resources. He brings more than 25 years of varied experience and is skilled in oil and gas evaluations, production optimization, all aspects of oil field operations from drilling to plant and pipeline construction, gas contract negotiations and general administrative and management functions.

**Rick MacDermott, Vice President of Operations** ■ Rick has over 16 years of experience in the oil and gas industry. He has worked for United Canso and Esso Resources. His experience is largely hands on operating experience, developing and overseeing completion and workover programs as well as designing and operating numerous production facilities. In 1991 he formed his own company, starting with 22 wells producing 50 barrels of oil per day. By late 1993 when his company, Cormac Resources Ltd. was acquired by Independent, it owned and operated 98 wells producing 300 barrels of oil per day and 300,000 cubic feet of natural gas per day.



Pictured from left to right: R. MacDermott, K. Robinson, D. Domier, E. Panchy, J. Lee, D. Anderson

**Eric Panchy, B.Sc. (Geology), Exploration Manager** ■ Eric has over 16 years experience as an exploration geologist. He received his basic training from three major oil and gas companies, BP, Shell and PetroCanada before spending 11 years with CN Exploration and a year with Calex Resources prior to the sale of that company. He has been responsible for discovering significant oil and gas reserves and generating prospects that have resulted in over 250 successful wells. He is particularly valuable to Independent since a major part of his experience has been in areas in Saskatchewan which are core to the Company.

**Darcy Anderson, C.A., B.Comm., Controller** ■ Darcy is a chartered accountant who received his designation in 1985. He worked for Collins Barrow and Peat Marwick for 6 years, where most of his clients were small to medium sized oil and gas companies and where tax and audit services were the main areas of work assignments. In 1988 he moved to the oil and gas industry and has worked for Truax and Calex Resources prior to joining Independent in late 1994.

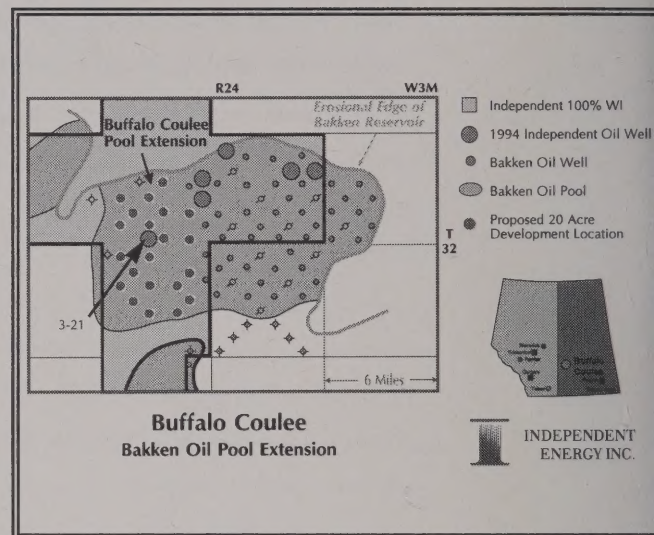
**Ken Robinson, B. Comm., Landman** ■ Ken has over 20 years experience in the oil and gas industry. He began his career as a landman at Amoco in 1974, formed his own consulting company in 1977, formed Karjan Resources Ltd. in 1980 and in 1981, completed a reverse take over of Madison Oil & Gas Ltd., a public company, where he was President and Chief Executive Officer. Madison eventually amalgamated with Kneehill Energy, which was acquired by the Inuvialuit Petroleum Corporation, at which time Ken reactivated his consulting company.

Independent Energy Inc. is a  
company that is well managed  
and demonstrates the ability to  
provide consistent growth



**Buffalo Coulee** ■ This property is located in southwest Saskatchewan and is the single largest producing property owned by the Company. Independent holds a 100% working interest in almost 9 sections, 5,760 acres of land and 25 producing wells. The property is located in an area that is very prone to oil and gas lying directly between the Coleville pool (cumulative production of 50 million barrels) five miles to the southeast and the Buffalo Coulee North pool (cumulative production of 800,000 barrels) one mile to the northwest. Independent's Buffalo Coulee property has produced approximately 2 million barrels of oil to date with 500,000 barrels still to be recovered. ■ The Company drilled six successful oil wells in 1994. Four wells

are on production with each well producing an average 50 BOPD. Two of the wells encountered significant amounts of gas and will be put on stream as soon as new compression facilities are added with expected delivery in May. The Company expects this will add approximately 1 MMCF of natural gas per day and 50 BOPD. The 3-21 well was a stepout well which confirmed the extension of the pool. Geological mapping and seismic control indicate that sections 16 and 21 potentially have 12 million barrels of oil in place. With a 20% recovery factor similar to the other pools in the area, Independent could develop an additional 2.4 million barrels. The Company's independent engineering firm has assigned 1.8 million barrels of probable reserves to the area. ■



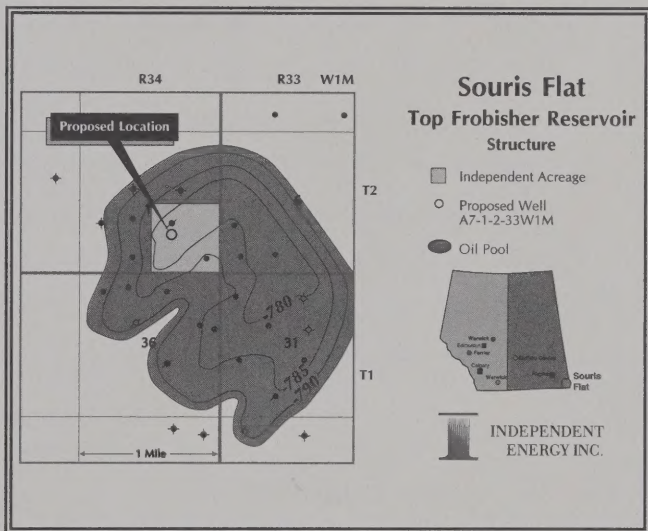
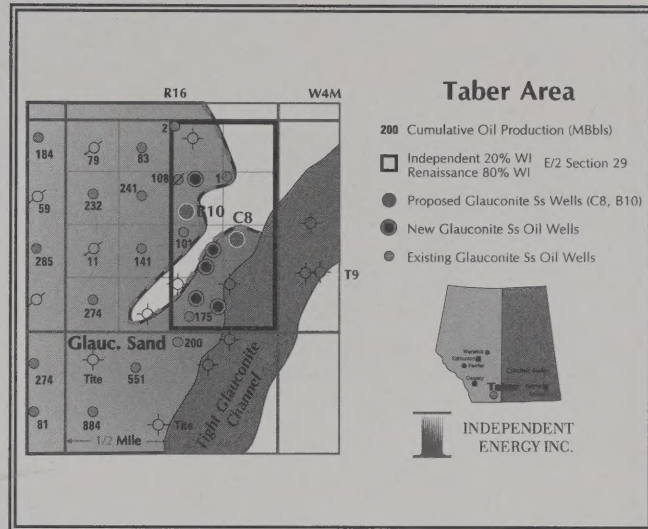
**Buffalo Coulee is located in southwest Saskatchewan and is the single largest producing property owned by the Company.**

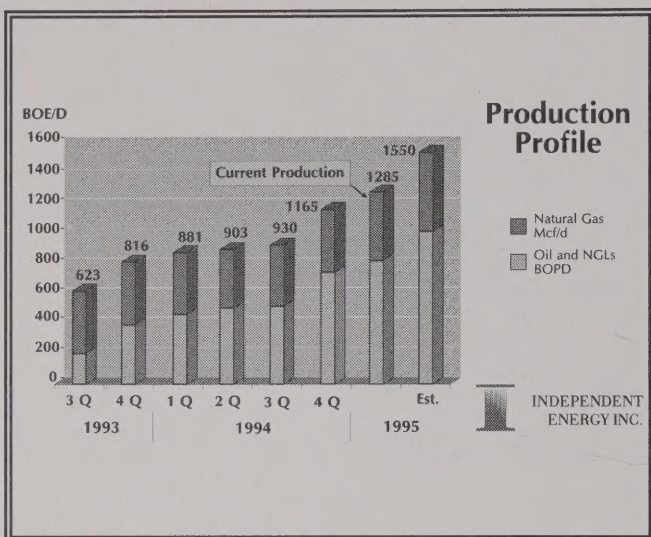
Independent has budgeted 9 wells for 1995, three of which were drilled and completed in the first quarter and will commence production in the second quarter. Assuming all wells are successful, this property alone should enable the Company to meet its production targets for 1995.



**Taber** ■ Independent owns a 20% interest in this area of southeast Alberta. Renaissance Energy is the operator and holds the balance of the interests. In late 1994 the first of five successful wells were drilled with initial production rates exceeding 100 BOPD per well. Cumulative production from older wells in the area has often exceeded 500,000 barrels per well. Two additional wells remain to be drilled in 1995.

**Souris Flat** ■ In July 1994, Independent acquired a small package of oil producing properties that produced approximately 60 BOPD. A number of the smaller working interest properties were sold enabling the Company to recapture most of its original capital and retain about 20 BOPD and several prospects. Souris Flat in southeast Saskatchewan has the most potential upside. Independent currently owns a 37.5% working interest and operates the property. The Company is attempting to increase its interest to 60% and intends to twin the 7-1 well. The 7-1 well is the highest well on the structure and produced 125,000 barrels prior to incurring an uphole casing leak that could not be repaired. The downdip offset well in 1-1 has produced over 400,000 barrels and continues to produce at 20 BOPD. Independent expects production to be in the 75-100 BOPD range from the 7-1 well.





### Production Chart

The Company commenced business on July 7, 1993 with 4.2 million cubic feet per day and 200 barrels of oil per day for a total of 623 barrels of oil equivalent per day. ■ In November, 1994 Independent acquired Cormac Resources Ltd. increasing production for the first quarter 1994 to an average 881 barrels of oil equivalent per day. ■ For the next three quarters the Company concentrated on property rationalizations and increasing its interests in core areas.

Production was maintained in the 850-930 BOEPD

range. ■ In mid 1994, Independent commenced a drilling program which resulted in the drilling of 20 gross (14 net) wells with a 75% success rate. Since most of the wells were drilled in the third quarter, the increase cannot be seen until the fourth quarter of 1994, where the chart indicates the Company exited 1994 at a rate of 1165 BOEPD for the month of December. Current production rates are currently at 825 BOPD and 5 MMCFD (1325 BOEPD) which is approximately 50% higher than the first quarter 1994. ■ The target for 1995 is to average 1550 BOEPD with an exit rate of 1100 BOPD and 7 MMCFD. This will require net additions of 275 BOPD and 2 MMCFD during the last three quarters of the year.

The Company commenced business with 4.2 million cubic feet per day and 200 barrels of oil per day, 623 barrels of oil equivalent per day.

### Land Holdings (Acres)

	1994		1993	
	Gross	Net	Gross	Net
<b>Developed</b>				
Alberta	104,436	35,421	84,091	24,874
Saskatchewan	9,477	5,850	4,038	2,223
	<u>113,913</u>	<u>41,271</u>	<u>88,129</u>	<u>27,097</u>
<b>Undeveloped</b>				
Alberta	80,264	37,274	110,154	40,189
Saskatchewan	4,758	4,758	-	-
	<u>85,022</u>	<u>42,032</u>	<u>110,154</u>	<u>40,189</u>
<b>Total</b>	<u>198,935</u>	<u>83,303</u>	<u>198,283</u>	<u>67,286</u>



### *Oil and Natural Gas Reserves*

	Oil and Natural Gas Liquids (MBBLS)		Natural Gas (MMCF)	
	Gross	Net	Gross	Net
Proven Reserves				
Proven Developed Producing	1,898.4	1,577.4	10,396	8,533
Proven Developed Non-Producing	—	—	333	267
Proven Undeveloped	<u>210.0</u>	<u>172.3</u>	<u>147</u>	<u>147</u>
Total Proven Reserves	2,108.4	1,749.7	10,876	8,947
Probable Additional Reserves	<u>1,952.4</u>	<u>1,621.6</u>	<u>4,229</u>	<u>3,621</u>
Total Proven Reserves and Probable Additional Reserves	<u>4,060.8</u>	<u>3,371.3</u>	<u>15,105</u>	<u>12,568</u>
Reserves Life Index - Proven				
Plus Probable (Years)	<u>19.9</u>		<u>10.3</u>	

The Company retained the services of McDaniel and Associates Consultants Ltd., an independent engineering firm, to evaluate the Company's properties.

***Sales Revenue and Production*** ■ Petroleum and natural gas sales increased from \$2.2 million in 1993 to \$6.1 million in 1994. This large increase is a result of having a complete year of production in 1994 compared to six months of production in 1993 as the Company did not commence operations till July 7, 1993. The increase is also attributable to daily oil and NGL production increasing 96% to 560 BOPD in 1994 compared to 286 BOPD in 1993 ■ Oil and NGL provided 54% of gross sales value while natural gas accounted for 46%. Natural gas production in 1994 declined marginally to 4.00 MMCFD in 1994 from 4.28 MMCFD in 1993.

***Prices*** ■ The 1994 average price for crude oil and NGL was \$16.97 per barrel and \$1.85 per MCF for natural gas. The 1994 average prices did not differ significantly from the 1993 average price for crude oil and NGL of \$16.39 per barrel and \$1.89 per MCF for natural gas.

***Royalties*** ■ Royalties in 1994 totalled \$841,000 or \$2.40 per BOE as compared to \$306,000 in 1993 or \$2.33 per BOE. As a percentage of gross petroleum and natural gas sales, royalties remained a constant percentage of 14% in 1994 and 1993.

***Operating Expenses*** ■ Operating expenses for 1994 totalled \$2.6 million or \$7.41 per BOE as compared to \$851,000 or \$6.51 per BOE in 1993. The increase in operating costs reflects the costs incurred with the start-up of new production at Buffalo Coulee, Saskatchewan. In the coming year the Company has projected that operating costs will decrease to \$6.00 per BOE largely as a result of higher production volumes from Buffalo Coulee.

***General and Administrative Expenses*** ■ Gross general and administrative expenses before overhead recoveries in 1994 were \$868,000 or \$2.48 per BOE as compared to \$275,000 or \$2.09 per BOE in 1993. The increase was a result of the Company operating the majority of its projects in 1994 and employing full-time employees in 1994 versus consultants in 1993. Gross general and administrative expenses after overhead recoveries in 1994 were \$741,000 or \$2.11 per BOE as compared to \$241,000 or \$1.84 per BOE in 1993. The Company does not capitalize any of its general and administrative expenses.

**Petroleum and natural gas sales increased from \$2.2 million in 1993 to \$6.1 million in 1994**



***Interest Expense*** ■ Interest expenses for 1994 were \$274,000 or \$0.78 per BOE as compared to \$72,000 or \$0.55 per BOE in 1993. The increase was a result of the Company's bank debt increasing to \$4.6 million in 1994 from \$3.8 million in 1993. The increase in the bank debt was necessary in order to develop the Company's core property at Buffalo Coulee. Based on the Company's projected 1995 cash flow of \$3.6 million, the ratio of annualized cash flow to long term debt will be 1.4 times.

***Depletion, Depreciation and Amortization*** ■ Depletion and depreciation expenses for the past year were \$1,203,000 or \$3.43 per BOE as compared to \$594,400 or \$4.55 per BOE in 1993. The decrease was a result of the Company adding 1,457,222 BOE of proven reserves at an average cost of \$3.77 per BOE and divesting of 131,946 BOE at an average divestiture netback of \$20.24 per BOE. Undeveloped land not subject to depletion amounted to \$2,117,000. The provision for future site restoration costs was \$177,000 or \$0.51 per BOE compared to \$94,000 or \$0.53 per BOE in 1993.

***Income Taxes*** ■ Income taxes in 1994 were comprised of a deferred income tax provision of \$578,200 (1993-\$656) and current income taxes of \$40,600 (1993-\$241,890). The current year income taxes of \$40,600 are made up of \$21,984 of income taxes relating to 1993, \$13,835 of which is recoverable in 1994 and the remainder of \$32,451 is entirely offset by the benefit from deducting share issue costs. The Company has generated approximately \$6.3 million of income tax pools to the end of 1994 which will have the effect of deferring all 1994 and 1995 income taxes.

Based on the Company's  
projected 1995 cash flow of  
\$3.6 million, the ratio of  
annualized cash flow to long  
term debt will be 1.4 times.

## *Liquidity and Capital Resources*

The table below provides an analysis of capital expenditures, reserve additions and finding costs.

### Capital Expenditures (\$M)

Year ending December 31	1994	1993
Exploration and development	\$ 3,081	\$ —
Equipment and facilities	963	1,014
Property acquisitions	850	4,215
Acquisition of wholly owned subsidiary	—	5,323
Land and other	693	11
Capitalized overhead	—	—
Total capital expenditures	<u>\$ 5,587</u>	<u>\$ 10,563</u>

### Net reserve additions (BOE)

Proven	1,457,222	2,351,771
Probable	<u>1,278,651</u>	<u>705,000</u>
Total reserve additions	<u>2,735,873</u>	<u>3,056,771</u>

### Finding costs per BOE

Proven	\$ 3.83	\$ 4.76
Proven plus probable	\$ 2.04	\$ 3.61
Proven plus 50% of probable	\$ 2.66	\$ 4.10

Not included in the above calculation, the Company has divested of proven reserves of 131,946 BOE for proceeds of \$2,670,044 which is an average divestiture netback of \$20.24 per BOE. ■ The Company anticipates that capital expenditures in 1995 will approach \$4.6 million and will be funded by internally generated cash flow, existing working capital and bank debt. The Company will maintain an active capital expenditure program which will have the effect of eliminating any concern for the prospect of paying any income taxes till the end of 1996. The 1995 expenditures will focus mainly on the development of the Buffalo Coulee area which will add immediate cash flow to the Company. ■ The Company has an operating credit facility of \$5,800,000 with a lending institution which bears interest at the lender's prime rate plus 1%. The Company has outstanding long term debt of \$4.4 million as at year end. The unused credit facility portion in addition to working capital gives Independent the ability to immediately access funds totalling \$1.8 million. ■ Total future removal



and site restoration costs relating to the Company's properties were estimated to be \$1,773,000 at December 31, 1994 of which \$177,000 was charged to operations during 1994 and \$94,475 was charged to operations in 1993.

### *Production and Cash Flow Forecast*

	Actual 1993	Actual 1994	Forecast 1995
Daily production			
Crude oil & NGL's (BPD)	286	560	1020
Natural gas (MMCFD)	4.28	4.00	5.30
BOEPD	714	960	1550
Cash flow	\$ 775,000	\$ 2,145,000	\$ 3,587,000
Cash flow per share - basic	\$ 0.21	\$ 0.48	\$ 0.81
- fully diluted	\$ 0.19	\$ 0.46	\$ 0.74

### *Sensitivities*

	Cash flow (000's)	per share
Change of U.S. \$1.00/bbl in the price of crude oil	\$ 337	\$ 0.08
Change of \$0.10/mcf in the price of natural gas	\$ 194	\$ 0.04
Change of \$0.01 in the U.S./Cdn.exchange rate	\$ 71	\$ 0.02

### *Net Asset Values* (000's, except per share)

	1994	1993
Proven and 50% probable reserve value, discounted at 15% before taxes	\$ 20,455	\$ 16,675
Undeveloped acreage	2,117	1,713
Working capital	576	748
Bank debt	<u>(4,613)</u>	<u>(3,800)</u>
Total net asset value	\$ <u>18,535</u>	\$ <u>15,336</u>
Common shares outstanding (000's)	\$ 4,436	\$ 4,488
Net asset value per share - basic	\$ 4.18	\$ 3.42
- fully diluted	\$ 3.89	\$ 3.27

Assumptions regarding 1995 cash flow forecast:

- W.T.I. oil price of \$18.00 U.S. per barrel
- natural gas price of \$1.44 per MCF
- average exchange rate of .72 Cdn

The consolidated financial statements are the responsibility of management of Independent Energy Inc. These financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada and include amounts that are based on management's best estimates and judgments, where appropriate.

Management maintains a system of internal control to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable, and timely information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of the Chairman and two non-management directors.

Collins Barrow, the Company's external auditors appointed by the shareholders, provide an independent audit of the consolidated financial statements. Their examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow the auditors to report on the fairness of the consolidated financial statements prepared by management.

Calgary, Alberta  
April 7, 1995



Jack C. Lee  
Chairman & Chief  
Executive Officer



Darcy R. Anderson  
Controller



## Auditors' Report

To the Shareholders of  
Independent Energy Inc.

We have audited the consolidated balance sheets of Independent Energy Inc. as at December 31, 1994 and 1993 and the consolidated statements of earnings and retained earnings and cash flow for the year ended December 31, 1994 and for the period from commencement of operations, July 7, 1993 to December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and cash flow for the periods then ended in accordance with generally accepted accounting principles.

Calgary, Canada  
March 24, 1995

*Collins Barrow*

Chartered Accountants

Consolidated Balance Sheets  
At December 31

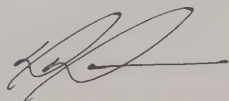
	1994	1993
<b>Assets</b>		
Current assets		
Cash	\$     –	\$ 139,964
Income taxes receivable	13,835	–
Accounts receivable and prepaid expenses	1,595,579	1,297,029
	1,609,414	1,436,993
Property and equipment, net (note 3)	11,734,607	10,062,767
	\$13,344,021	\$11,499,760
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness	\$ 212,577	\$     –
Accounts payable and accrued liabilities	1,033,671	332,909
Income taxes payable	–	356,456
	1,246,248	689,365
Bank loan (note 4)	4,400,000	3,800,000
Deferred revenue	–	59,790
Provision for future removal and site restoration costs	255,212	94,475
Deferred income taxes	578,856	656
<b>Shareholders' Equity</b>		
Share capital (note 5)	6,621,393	6,782,035
Contributed surplus (note 6)	40,087	–
Retained earnings	202,225	73,439
	6,863,705	6,855,474
	\$13,344,021	\$11,499,760

On behalf of the Board

Director



Director



See accompanying notes



Consolidated Statements of Earnings and Retained Earnings  
Year ended December 31  
(With comparatives for the Period from Commencement of Operations,  
July 7, 1993 to December 31, 1993)

	1994	1993
<b>Revenue</b>		
Petroleum and natural gas sales	\$ 6,108,507	\$ 2,247,981
Royalties	(840,843)	(306,110)
Other income	495,597	238,869
	5,763,261	2,180,740
<b>Expenses</b>		
Operations	2,595,544	850,770
General and administrative	740,584	240,920
Interest	273,658	72,363
Depreciation, depletion and amortization	1,405,889	700,702
	5,015,675	1,864,755
<b>Earnings before income taxes</b>	747,586	315,985
Income taxes (note 8)		
Current	40,600	241,890
Deferred	578,200	656
	618,800	242,546
<b>Net earnings</b>	128,786	73,439
Retained earnings, beginning of period	73,439	—
<b>Retained earnings, end of period</b>	\$ 202,225	\$ 73,439
<b>Earnings per share</b>	\$ 0.03	\$ 0.02

See accompanying notes

Consolidated Statements of Cash Flow  
Year Ended December 31  
(With Comparatives for the Period from Commencement of Operations,  
July 7, 1993 to December 31, 1993)

	1994	1993
<b>Operating Activities</b>		
Net earnings	\$ 128,786	\$ 73,439
Add items not requiring cash:		
Income tax benefit from share issuance costs	32,451	-
Depletion, depreciation, and amortization	1,405,889	700,702
Deferred income taxes	578,200	656
	2,145,326	774,797
Changes in non-cash working capital	31,921	(616,327)
	2,177,247	158,470
<b>Financing Activities</b>		
Proceeds from bank loan, net	600,000	3,800,000
Repayment of long-term debt	-	(542,810)
Increase (decrease) in deferred revenue	(59,790)	59,790
Issuance of share capital	-	7,089,745
Share issue costs	(37,393)	(328,544)
Cost of share redemptions	(115,613)	-
	387,204	10,078,181
<b>Investing Activities</b>		
Acquisitions of property and equipment	(5,587,036)	(5,266,445)
Acquisition of subsidiary - purchase price	-	(4,938,000)
- acquisition costs	-	(74,289)
Receipt of cash on acquisition of subsidiary	-	182,047
Proceeds from sale of property and equipment	2,670,044	-
	(2,916,992)	(10,096,687)
Cash inflow (outflow)	(352,541)	139,964
Cash at beginning of period	139,964	-
<b>Cash (Bank indebtedness) at end of period</b>	<b>\$ (212,577)</b>	<b>\$ 139,964</b>
Cash flow per share - basic	\$ 0.48	\$ 0.21
- fully diluted	\$ 0.46	\$ 0.19

See accompanying notes



# Notes to Consolidated Financial Statements

## 1. COMPANY ACTIVITIES

The Company was incorporated under the laws of Alberta on March 1, 1993 as 557143 Alberta Inc. and changed its name to Independent Energy Inc. by a Certificate of Amendment dated April 14, 1993. Effective July 7, 1993, the Company acquired certain producing and non-producing oil and gas properties and related tangible assets and facilities and completed a private placement of Class B common shares. The Company's activities are the exploration for and development of oil and gas properties in Canada.

## 2. ACCOUNTING POLICIES

### (a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary company, Cormac Resources Ltd. and the proportionate interests of Independent Energy Inc. and Cormac Resources Ltd. in the Independent Energy Partnership.

### (b) Petroleum and Natural Gas Properties

#### (i) Capitalized costs

The full cost method of accounting for oil and gas properties as prescribed in the Accounting in the Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants is followed. Under this method, all costs related to the exploration and development of oil and gas reserves are capitalized. Proceeds from the disposition of properties will be applied as a reduction of the cost of the remaining assets, except when a significant disposition occurs, in which case a gain or loss on disposal is recorded. A significant disposition would cause a change of 20% or more in the depletion and depreciation rate.

#### (ii) Future capital costs

In addition to the capitalized costs incurred to date in the exploration and development of petroleum and natural gas properties, the operation and further development requires future expenditures. For purposes of calculating depletion and depreciation expense and the ceiling test, estimates of future expenditures and recoveries have been prepared for:

- development costs of proven undeveloped reserves as determined by independent engineers;
- site restoration costs as determined by independent engineers; and
- net realizable value of production equipment and facilities after proven reserves are fully produced as determined by management.

#### (iii) Depletion and depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment and facilities are calculated on the unit-of-production method based upon:

- total estimated gross proven developed and undeveloped reserves, before royalties, as determined by independent engineers;
- total capitalized costs plus future capital costs; and
- petroleum and natural gas reserves converted to a common unit of measure on the basis of their approximate relative energy content.

Other equipment is depreciated on the declining balance basis rates varying from 20-30% per annum.

#### (iv) Ceiling test

The carrying amount of property and equipment, net of recorded deferred income taxes, is limited to the sum of:

- estimated future net revenues computed by management from gross proven reserves as determined by independent engineers;
- future capital costs;
- production-related general and administrative expenses; and
- applicable income and capital taxes.

The calculations and estimates in (iii) and (iv) above are based upon sales prices, costs and regulation in effect at the end of the fiscal period.

## (c) Joint venture accounting

Substantially all of the Company's exploration and production activities are conducted jointly with others, and accordingly these accounts reflect only the Company's proportionate interest in these activities.

## (d) Deferred revenue

Payments received for undelivered gas are initially deferred and are recognized as revenue when deliveries are made or on expiry of the period allowed for such deliveries.

## (e) Income taxes

The income tax benefit from share issuance costs is deducted from share issuance costs when realized. Share issuance costs available for deduction against future taxable income, for which no benefit has been recognized in the financial statements, total \$245,764 (1993-\$281,558). Tax benefits recognized in 1994 totalled \$32,451 (1993-\$20,834).

## (f) Earnings per share

Earnings per share has been calculated using the weighted average number of common shares of 4,448,364 (1993-3,660,569) outstanding during the period. The effect of stock options outstanding (note 5 (f)) would not be dilutive.

## 3. PROPERTY AND EQUIPMENT

		1994		1993
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas leases and rights including exploration and development thereon	\$ 11,758,003	\$ 1,507,000	\$ 10,251,003	\$ 8,783,410
Lease and well equipment	1,622,065	290,400	1,331,665	1,179,808
Other equipment	184,201	32,262	151,939	99,549
	<u>\$ 13,564,269</u>	<u>\$ 1,829,662</u>	<u>\$ 11,734,607</u>	<u>\$ 10,062,767</u>

Future removal and site restoration costs are estimated in aggregate to be \$1,772,557 (1993 - \$1,566,750) of which \$177,000 (1993-\$94,475) has been charged to income in the current year.

Included in property and equipment at December 31, 1994 are assets with net book value of \$3,898,062 (1993 - \$4,322,315) which are not deductible for income tax purposes.

During the year, the Company did not capitalize general and administrative expenses (1993-nil).

Undeveloped land in the amount of \$2,117,108 (1993-\$1,713,012) was excluded from costs subject to depletion.

## 4. BANK LOAN

	1994	1993
Revolving production loan, due on demand, bearing interest at a Canadian bank prime rate plus 1%, secured by a General Security Agreement, an assignment of certain gas contracts, a \$7,500,000 demand debenture at a rate of prime plus 3% providing a first fixed charge over certain oil and gas properties and a floating charge on all other assets.	<u>\$ 4,400,000</u>	<u>\$ 3,800,000</u>



## Notes to Consolidated Financial Statements

As the bank has indicated it will not require repayment within the next fiscal year, the bank loan has been disclosed as a long-term liability.

### 5. SHARE CAPITAL

Authorized (note 5 (a))

Unlimited Class A common shares  
 Unlimited Class B common shares  
 Unlimited First preferred shares issuable in series  
 Unlimited Second preferred shares issuable in series

	1994		1993	
	Number	Stated Value	Number	Stated Value
<b>Issued</b>				
<b>Class A shares</b>				
Balance, beginning of period	1,362,990	\$ 4,088,970	—	\$ —
Class B shares converted to Class A shares	3,125,000	3,000,775	—	—
Acquired and cancelled pursuant to normal course issuer bid (note 5 (b))	(51,900)	(155,700)	—	—
Issued for cash	—	—	725,000	775
Converted to Class B shares	—	—	(725,000)	(775)
Issued for cash pursuant to Agency Agreement (note 5 (c))	—	—	716,990	2,150,970
Issued upon acquisition of the outstanding shares of Cormac Resources Ltd. (note 7)	—	—	646,000	1,938,000
	4,436,090	6,934,045	1,362,990	4,088,970
<b>Class B shares</b>				
Balance, beginning of period	3,125,000	3,000,775	—	—
Converted to Class A shares (note 5 (e))	(3,125,000)	(3,000,775)	—	—
Class A shares converted to Class B shares	—	—	725,000	775
Issued for cash pursuant to a private placement (note 5 (d))	—	—	2,400,000	3,000,000
	—	—	3,125,000	3,000,775
		6,934,045		7,089,745
Share issuance costs, net of income taxes of \$53,285 (1993-\$20,834)		(312,652)		(307,710)
	4,436,090	\$ 6,621,393	4,487,990	\$ 6,782,035

- (a) Effective September 26, 1994, the Company's Articles of Incorporation were amended to authorize the issuance of an unlimited number of First and Second preferred shares, each issuable in series.
- (b) Effective December 31, 1993, the Company commenced a normal course issuer bid under which it could purchase up to 68,150 of its outstanding Class A shares until December 31, 1994 at the market price of the shares at the time of acquisition. The Company acquired and cancelled 51,900 Class A shares at an average price of \$2.19 per share.
- (c) On September 20, 1993, the Company entered into an agency agreement with Sprott Securities Limited under which 716,990 Class A shares of the Company were issued at a price of \$3.00 per share for proceeds of \$2,150,970 before the agent's commission of \$129,058.
- (d) Pursuant to a private placement effective July 7, 1993, the Company issued 2,400,000 Class B shares at a price of \$1.25 per share for proceeds of \$3,000,000.
- (e) The Class B common shares are convertible by the holder at any time after the date of issue, on a one-for-one basis, into Class A common shares and shall be converted into Class A common shares on the earlier of:
- (i) sixty days after the issue of a receipt for a final prospectus qualifying for distribution any of the Class A common shares issuable upon conversion of the Class B common shares; and
  - (ii) December 31, 1994.

During 1994, all of the Class B common shares were converted to Class A common shares.

- (f) The Company has reserved for issuance 614,500 Class A shares pursuant to its stock option plan. The stock options vest over a three-year period from the date of grant and expire after five years.

Date of Grant	Number	Exercise Price	Expiry Date
July 7, 1993	282,000	\$ 1.25	July 6, 1998
October 15, 1993	9,000	\$ 3.00	October 14, 1998
December 9, 1993	30,500	\$ 3.00	December 8, 1998
May 3, 1994	200,000	\$ 1.87	May 2, 1999
August 18, 1994	3,000	\$ 2.25	August 17, 1999
November 2, 1994	90,000	\$ 2.65	November 1, 1999

- (g) As at December 31, 1994, 652,500 Class A (1993 - 493,000 Class B) shares having a stated value of \$698 (1993 - \$527) remain in escrow to be released automatically as follows:

Number	Date
72,500	November 29, 1995
108,750	November 29, 1996
108,750	November 29, 1997

In addition to the automatic releases, additional releases may be applied for on the basis of one share for each \$4.00 spent by the Company on the exploration and/or development of its resource properties.

## 6. CONTRIBUTED SURPLUS

	1994	1993
Balance, beginning of period	\$ —	\$ —
Excess of stated value of shares acquired and cancelled pursuant to the normal course issuer bid (note 5(b)) over acquisition cost	40,087	—
Balance, end of period	\$ 40,087	\$ —



## Notes to Consolidated Financial Statements

### 7. BUSINESS COMBINATION

Pursuant to an agreement effective November 1, 1993 and approved by the directors December 9, 1993, the Company acquired all of the outstanding common shares of Cormac Resources Ltd. The purchase price of \$4,938,000 was settled by a cash payment of \$3,000,000 and by the issuance of 646,000 Class A shares of the Company at a price of \$3.00 per share.

The acquisition has been accounted for using the purchase method with the following balances of Cormac Resources Ltd. being added to the accounts of Independent Energy Inc. as follows:

Working capital deficiency excluding cash	\$ (24,445)
Capital assets	<u>5,323,208</u>
	5,298,763
Long-term debt	<u>(542,810)</u>
Total non-cash net assets	4,755,953
Cash	<u>182,047</u>
	<u>\$ 4,938,000</u>

Results of operations of Cormac Resources Ltd. have been included in the consolidated statement of earnings from the date of acquisition, November 1, 1993.

### 8. INCOME TAXES

Income taxes differ from the results which would be obtained by applying the combined federal and provincial income tax rates of 44.34% to the Company's net earnings. The difference results from the following:

	1994	1993
Expected income tax provision	\$ 331,480	\$ 140,108
Increase (decrease) resulting from:		
Depletion on non-tax based assets	191,992	122,981
Non-deductible crown charges	337,344	117,197
Resource allowance	(269,262)	(116,906)
Other	<u>27,246</u>	<u>(20,834)</u>
Reported income tax provisions	<u>\$ 618,800</u>	<u>\$ 242,546</u>

For income tax purposes, the current income tax expense in 1994 is offset by the benefit from deducting share issuance costs.

## 9. OPERATING LEASE COMMITMENTS

The Company has certain lease obligations covering office space. Minimum lease payments over the next four years (net of subleases), including operating costs, are as follows:

1995	\$ 58,628
1996	58,628
1997	30,516
1998	<u>1,604</u>
	<u>\$149,376</u>

## Directors

Jack C. Lee  
Chairman of the Board  
Independent Energy Inc.

Duane B. Domier  
President  
Independent Energy Inc.

Richard N. MacDermott  
Vice-President, Operations  
Independent Energy Inc.

Stuart R. Horne  
President  
Tombill Mines Limited

Lorne Graham  
President  
Lorne Graham Enterprises Inc.

Richard D. Orman  
Director  
Kappa Energy Investments Inc.

## Abbreviations

BBL	barrel
BPD	barrels per day
BOPD	barrels of oil per day
BCF	billion cubic feet
BOEPD	barrels of oil equivalent per day (1BBL = 10 MCF)
MMBBLs	million barrels
MBBLS	thousand barrels
NGL	natural gas liquids
MCF	thousand cubic feet
MCFD	thousand cubic feet per day
MMCF	million cubic feet
MMCFD	million cubic feet per day

## Officers and Senior Management

Jack C. Lee, B.A., B.Comm.  
Chairman of the Board  
Chief Executive Officer

Duane B. Domier, P.Eng., MBA  
President  
Chief Operating Officer

Richard N. MacDermott  
Vice-President, Operations

Eric G. Panchy, B.Sc.  
Exploration Manager

Darcy R. Anderson, C.A., B.Comm.  
Controller

## Stock Exchange

The Alberta Stock Exchange  
Trading Symbol - IDE.A

## Registrar and Transfer Agent

Montreal Trust Company  
Calgary, Alberta

## Banker

Alberta Treasury Branch  
Calgary, Alberta

## Auditors

Collins Barrow  
Calgary, Alberta

## Solicitors

Burnet, Duckworth & Palmer  
Calgary, Alberta



## **Head Office**

Suite 2350, 101-6th Avenue S.W.

Calgary, Alberta

T2P 3P4

Telephone: (403) 269-1747

Fax: (403) 269-1759